WESTBOW
ENERGY INC.

2005 ANNUAL REPORT

Abbreviations

In this Information Circular, the abbreviations set forth below have the following meanings:

"bbls"	Barrels	**"mcf/d"**	one thousand standard cubic feet per day
"mbbls"	1,000 barrels	**"mmcf/d"**	one million standard cubic feet per day
"bbl/d"	barrels per day	**"boe"**	barrels of oil equivalent
"NGL"	natural gas liquids	**"mboe"**	1,000 barrels of oil equivalent
"mcf"	1,000 standard cubic feet	**"boe/d"**	barrels of oil equivalent per day
"mmcf"	1,000,000 standard cubic feet	**"US dollars"**	United States dollars

Note: For the purposes of this document, 6 mcf of natural gas and 1 bbl of NGL each equal 1 bbl of oil.

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The Annual General and Special Meeting of the Shareholders of the Corporation will be held on Thursday, June 29, 2006 at 10:00 a.m. (local Calgary time) at the Calgary Petroleum Club, Cardium Room, 319 - 5th Avenue SW, Calgary, Alberta T2P 0L5

PRESIDENT'S MESSAGE

2005 was a pivotal year in the evolution of Westbow Energy Inc. Westbow was incorporated as a private company in October 1999. Initial growth was dependent on the resources of the founding directors so it was relatively slow. However, over the first five years of the Corporation's existence, we were successful in establishing an asset and cash flow base and developing an inventory of prospects to provide the foundation for accelerated future growth.

The first major step in the accelerated growth plan was a preferred share offering that raised $1.3 million in June 2005. These funds were used primarily, to drill three infill wells in the Elmworth Doe Creek B Pool and to install central production facilities. The next step was a reverse takeover of Everest Energy Corporation, a small public company with some complementary oil and gas assets. Although it was a lengthy and costly process, this action was completed with the amalgamation of Westbow and Everest on December 31, 2005 and Westbow began trading on the TSX Venture Exchange under the symbol WBW on February 6, 2006.

The third step in Westbow's transformation in 2005 was the move from growth through acquisition and exploitation to growth via the drill bit. Including the aforementioned Elmworth infill wells, Westbow participated in 7 gross, (2.5 net), wells during the year, of which five were successful. Two farm-out wells were also successfully completed during 2005. Furthermore, through various farm-ins and purchases, the Corporation acquired interests in ten additional sections of land containing at least five prospects scheduled for drilling in 2006. An equity offering, completed in May 2006, will provide most of the funding for this drilling program.

On a more cautionary note, the current booming activity in the upstream oil and gas industry has created severe shortages of equipment, services and qualified people. The result is escalating costs and long delays in getting projects completed. Westbow felt this impact on the Elmworth infill project where completion was delayed by at least four months and costs were substantially over the original budget. The impact was also felt at Culp where two wells planned for late 2005 had to be delayed well into 2006 because of rig availability. Westbow, like all of the smaller players in the industry, has had to make compromises and adjustments to plans in order to cope with the new reality.

Westbow has been able to make the necessary adjustments because of the unique strength of the management team. The core group of founding directors has been working together for over ten years and most have been friends for upwards of forty years. This group represents all the major disciplines required to build a successful oil & gas company. Following the amalgamation with Everest, two new directors joined the team. These individuals have significant history with certain members of the founding group and bring with them complementary expertise in the management of public companies with particular emphasis on financing.

Since Westbow's asset base and drilling prospects are spread from northeast British Columbia to southwest Saskatchewan, it may appear that we lack focus. Nothing could be further from the truth. Many companies try to establish "core areas" where they can concentrate resources in an attempt to gain a competitive edge. Westbow's core area is geological rather than geographical. We target prospects within certain geological horizons that generally meet our criteria: light oil or sweet gas, moderate depth, and close to infrastructure. This allows us a measure of control over costs and ensures discoveries can be quickly brought to market while maintaining the flexibility to take advantage of opportunities wherever they exist in Western Canada.

The steps taken in 2005 have positioned Westbow for rapid growth in reserves, asset value and cash flow in the near future. I express my thanks to the staff and management for their hard work and dedication in getting us to this point and I thank the directors for their guidance. Finally, I wish to extend my thanks to our shareholders, both old and new, for their continued faith in our Corporation.

Daniel P. O'Neill,
President and C.E.O.

OPERATIONS REVIEW

Overview

Effective December 31, 2005, Westbow Energy Inc. completed an amalgamation with Everest Energy Corporation. Thus the new Westbow was essentially launched on January 1, 2006. To make this discussion meaningful, all 2005 activities and statistics discussed in this portion of the report reflect the combined companies.

Much of Westbow's focus in 2005 was on the completion of the Elmworth infill program and the assembly of prospects for drilling in 2006. The Elmworth wells commenced production in December so this had minimal impact for 2005 but will contribute substantially in 2006. In addition to the Elmworth wells, Westbow participated in two gas wells in east-central Alberta that are expected to start producing in the second quarter of 2006. Two royalty interest wells completed in 2005 are also contributing to the Corporation's cash flow. The delay in bringing on new production exacerbated the impact of high capital and operating costs and this impact will be reflected in the Company's financial performance through the first part of 2006.

Drilling Prospects

Westbow has prospects scheduled for drilling in 2006 at Culp, Smith Coulee, Elmworth South and Ferintosh. The Culp prospect, northeast of Grande Prairie, Alberta, has multi-zone gas potential. Two wells have been drilled and cased on this prospect and completion operations will proceed as weather permits. Two wells will be drilled at Smith Coulee in southeastern Alberta in June or July contingent on rig availability. The Elmworth South gas prospect will be drilled in June and the Ferintosh prospect is planned for late summer. All these prospects are relatively low risk, close to existing production and have potential to significantly impact the Corporation.

Other drilling prospects are currently being evaluated at Elmworth and Fenn-Big Valley and a geological review of Corporation lands at Battrum will be undertaken in the next few months. Due to access conditions, completion and testing of the Bluesky zone at Boundary Lake is scheduled for late in 2006.

Reserves & Production

Independent engineering evaluations have been completed by Martin & Brusset Associates ("MB") for all Westbow Properties as at January 1, 2006. Reserve evaluations are prepared in accordance with National Instrument Number 51-101 Standards of Disclosure for Oil and Gas Activities.

At January 1, 2006, the Corporation had Net (After Royalty) Proved Reserves of 174 mboe, valued at $5.3 million, and Proved plus Probable Reserves of 280 mboe, valued at $7.4 million (MB - 10% NPV at January 1, 2006). The following table sets out the net volumes and the before tax net present value of the Reserves at various discount rates as at January 1, 2006, utilizing MB's forecast prices.

Reserves Class	Volumes			Before Tax Net Present Value of Reserves ($K)			
	Oil/Ngl (mbbls)	Gas (mmcf)	Total (MBOE)	0%	10%	12%	15%
Proved Reserves							
Developed Prod	75	427	146	6,042	4,467	4,281	4,040
Dev Non-Prod	4	146	28	1,140	793	742	673
Total Proved	**79**	**573**	**174**	**7,182**	**5,260**	**5,023**	**4,713**
Probable Reserves							
Developed Prod	47	254	91	3,338	1,843	1,694	1,510
Dev Non-Prod	2	78	15	609	323	288	244
Total Probable	**49**	**332**	**106**	**3,947**	**2,166**	**1,982**	**1,754**
Total Proved and Probable	**128**	**905**	**280**	**11,129**	**7,426**	**7,004**	**6,468**

Additional information concerning the Corporation's reserves can be found in the Statement of Reserves Data and Other Oil and Gas Information filed on Sedar at www.sedar.com.

Westbows production in 2005 averaged 50 boe per day comprised of 147 mcf per day of natural gas and 25 bbl per day of oil and natural gas liquids. 2005 production for properties acquired from Everest averaged 9 boe per day, comprised of 56 mcf per day of natural gas.

Production during January 2006, the first full month of production from the Elmworth infill wells, averaged approximately 96 boe per day, comprised of 250 mcf per day of natural gas, plus 54 bbls per day of oil and natural gas liquids.

PROPERTIES AND LAND

The major producing properties in which the Corporation has interests are: Elmworth, Redwater, Sinclair and Pouce Coupe. The Corporation also has interests in several minor properties plus non-producing reserves at Boundary Lake. Following is a brief description of these properties:

Elmworth

Westbow holds interests from 48.2% to 61.9% in, and operates, an 800 acre property located in Township 70, Range 6 W6M, about 10 km south of Grand Prairie. This property contains seven producing oil and gas wells and two suspended gas cap wells. On purchase of this property in 2000, the Corporation drilled one well and installed facilities to conserve and sell solution and associated gas. In late 2005, the Corporation completed three infill wells and constructed central battery facilities.

Elmworth South:

The Corporation has a 33.33% interest in a Dunvegan gas well at 8-07-69-06W6 and a royalty interest in a well producing from a deeper zone in the same section. Westbow participated, through a joint venture, in drilling a successful gas well at 6-25-69-08W6. The Corporation's net interest is 3.3% before payout and 4.95% APO. With the drilling of the 6-25 well, Westbow also earned an 8.25% interest in an offsetting undrilled section. A well has been proposed for this section for drilling in 2006.

Redwater:

The Corporation holds interests from 10% to 50% in 720 acres of land in the Redwater field. The Corporation operates three producing oil wells and two suspended wells on the property. Production is from the Bruderheim sand in the lower Mannville zone.

Pouce Coupe:

The Corporation holds interests from GORR to 11.29% working interest in ten sections in the Pouce Coupe area of northwestern Alberta. The lands contain six producing and four suspended wells. Production is from the Bluesky, Baldonnel Halfway and Nikanassin zones and is characterized by large gross reserves and slow declines.

Sinclair/Knopcik

The Corporation holds varying interests from a GORR to 25.31% working interest in 5,120 acres in this property, which is located about 70km west of Grande Prairie and 40km south of Pouce Coupe. Productive zones in this area include the Montney, Bluesky, Gething, Cadomin and Doe Creek. The property contains three producing and two suspended gas wells plus two undrilled sections.

Minor Producing Properties

The Corporation has interests from 3.4% to 19.4% in four oil wells and two gas wells in east central Alberta. The Corporation also holds a 20% interest in a producing oil well and 33.33% in a suspended well in Mitsue, near Slave Lake, Alberta plus a 10% working interest in a producing gas well at Dodsland in southwestern Saskatchewan. The Corporation also holds interests from 9.4% to 10.6 % in two Fenn West (Drumheller) wells which are expected to be completed in June 2006.

Boundary Lake

The Corporation has various working and royalty interests in 4.5 sections along the Alberta-B.C border at Boundary Lake, east of Fort St. John B.C. The property includes a 56.0% before payout interest in a well that tested gas and oil from two zones and has indicated gas in a third zone. The Corporation believes this well contains substantial gas and oil reserves, but, because of the limited and dated test information, MB only considered these reserves as "possible". Consequently, they were excluded from the MB Report. Pooling of interest in the one section spacing unit is required before this well can be placed on production.

Lands

The Corporation has a 30% interest in six sections of undeveloped lands in the Smith Coulee area of southeastern Alberta. The Corporation plans to drill two Bow Island zone gas prospects at Smith Coulee in 2006, and additional drilling is contingent on success. The Corporation also owns a 30% interest in one section of land at Ferintosh and in the Culp area has a 20% and 50% interest in two sections and one section of land respectively.

The Corporation also holds an average 75% interest in five sections in the West Battrum area of Saskatchewan. Further geological work is required at West Battrum to define drilling locations.

FINANCIAL AND OPERATING HIGHLIGHTS

	Year ended December 31	
	2005	**2004**
FINANCIAL ($000's except per share data)		
Petroleum and natural gas revenue	1,109	1,112
Cash flow from operations	279	280
Per share – basic	0.02	0.05
Per share - diluted	0.02	0.05
Net income (loss)	(42)	72
Per share – basic	(0.00)	0.01
Per share - diluted	(0.00)	0.01
Capital expenditures	1,879	12
Property and equipment acquired through corporate acquisition	1,202	-
Debt and working capital deficit	(1,130)	(661)
Convertible preferred shares	1,300	-
Shareholders' equity	1,923	541
Total assets	6,146	1,716
OPERATING (average) daily production)		
Oil (bbls/day)	22	24
Natural gas liquids (bbls/day)	3	4
Natural gas (mcf/day)	147	233
Equivalent barrels (boe/day)	50	67
WELLS DRILLED		
Gross	7.0	2.0
Net	2.5	-
RESERVES (MBOE)		
Total proved	174	155
Probable	106	147
Total proved plus probable	280	303
COMMON SHARE INFORMATION		
Shares outstanding – basic	10,000,000	5,737,039
Shares outstanding – diluted	10,000,000	5.780,305
Weighted average during the period		
Basic	10,000,000	5,737,039
Diluted	10,000,000	5,780,305

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Westbow Energy Inc. ("Westbow" or "the Company") should be read in conjunction with the audited consolidated financial statements including notes for the years ended December 31, 2005, and December 31, 2004.

Basis of Presentation – The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and measurement currency is the Canadian dollar.

Non-GAAP measurements – The MD&A contains the terms "cash flow from operations", and "netbacks", which are not determined in accordance with GAAP. These terms should not be considered an alternative to, or more meaningful than, net income or funds provided by operations as determined in accordance with GAAP, as an indicator of the Company's performance. The reconciliation between net income and cash flow from operations can be found in the statements of cash flow in the consolidated financial statements.

These measurements are presented because management believes the information is useful for investors as it is used internally and widely accepted by those following the oil and gas industry as a financial indicator of a company's ability to generate cash to internally fund exploration and development activities and service debt. Cash flow from operations is also used by research analysts to value and compare oil and gas exploration and production companies, and is frequently included in published research when providing investment recommendations.

Boe presentation – The calculation of barrels of oil equivalent ("boe") are based on a conversion rate of six thousand cubic feet ("mcf") of natural gas to one barrel ("bbl") of crude oil. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward looking information -

This report may contain forward-looking financial and operational information including earnings, cash flow, production and capital expenditure projections. These projections are based on the Company's expectations and are subject to a number of risks and uncertainties that could materially affect the results. These risks include, but are not limited to, future commodity prices, exchange rates, interest rates, geological risk, reserves risk, product demand, and transportation restrictions. Due to the risks, uncertainties, and assumptions inherent in forward-looking statements, perspective investors in the Company's securities should not place undue reliance on these forward-looking statements.

Business Combination

On December 31, 2005 Westbow Energy Inc. (the "Company") and Everest Energy Corporation ("Everest") amalgamated under the terms of the Amalgamation Agreement. As part of the Amalgamation Agreement the common shares of the Company were consolidated on a 10 to 1 basis. Pursuant to the Amalgamation Agreement all the issued and outstanding Everest and Westbow shares were converted into the amalgamated company shares based on specified conversion rates. In effect, the outstanding Everest shares were consolidated on a 10 to 1 basis, as every 9.7372 Everest share was converted into one share of the amalgamated company. Conversely all the outstanding Westbow shares were split on an effective 10 to 1 basis, as one share was converted into 10.13611 shares of the amalgamated company. After giving effect to the transaction, former Westbow shareholders owned 7,000,000 shares and former Everest shareholders owned 3,000,000 shares of the amalgamated entity. The share allocation was determined by arm's length negotiation based on each company's respective net asset values.

The reverse take-over transaction has been accounted for as an acquisition of Everest by using the purchase method. for a total consideration of $1,464,560 consisting of 3,000,000 common shares and transaction cost of $237,560.

The purchase price has been recorded at the fair value of the assets and liabilities acquired as follows:

Working capital, including cash of $312,098	$	(9,388)
Property and equipment		1,202,305
Asset retirement obligations		(15,357)
Goodwill		287,000
	$	1,464,560

The results of operations of Everest will be included in the accounts of the Company from January 1, 2006.

PRODUCTION

		Year ended December 31	
		2005	2004
Total Production			
Crude Oil	(bbl)	7,980	8,614
Natural gas liquids ("NGL")	(bbl)	1,168	1,678
Natural gas	(mcf)	53,705	85,341
Total equivalent	(boe)	18,099	24,516
Daily Production			
Crude Oil	(bbls/day)	22	24
NGL	(bbls/day)	3	4
Natural gas	(mcf/day)	147	233
Total equivalent	(boe/day)	50	67

For the year ended December 31, 2005, the Company's production averaged 50 boe per day versus 67 boe per day for 2004. Crude oil production in 2005 decreased 7% from 2004, which was due to normal production declines but offset by production on three new infill wells which came on stream in December 2005. Natural gas production of 53,705mcf in 2005 decreased 37.1% over the 2004 period, mainly because 1) 2004 levels include 100% volumes from a certain oil and gas well (pursuant to our Independent Operations Notice until payout) from mid March to November 30, 2004 whereas the 2005 levels are at the Company's original 33.3333% working interest; 2) 2004 levels include two gas producing properties which were sold July 1, 2004; and 3) reduced output in 2005 on two gas wells where the new operator determined certain allowable production levels with the AEUB. There were also some normal production declines and the shut-in of a former producing well. Natural gas liquid sales averaged 3 boe per day during 2005 versus 4 boe per day in 2004.

2005 Quarterly Production

		2005			
		Q4	Q3	Q2	Q1
Total Production					
Crude Oil	(bbl)	2,361	1,683	2,037	1,899
Natural gas liquids ("NGL")	(bbl)	225	294	264	385
Natural gas	(mcf)	13,239	13,860	12,554	14,052
Total equivalent	(boe)	4,793	4,287	4,393	4,626
Daily Production					
Crude Oil	(bbls/day)	26	18	22	21
NGL	(bbls/day)	2	3	3	4
Natural gas	(mcf/day)	144	151	138	156
Total equivalent	(boe/day)	52	47	48	51

2004 Quarterly Production

		2004			
		Q4	Q3	Q2	Q1
Total Production					
Crude Oil	(bbl)	2,037	1,966	2,358	2,253
Natural gas liquids ("NGL")	(bbl)	469	458	465	286
Natural gas	(mcf)	18,574	22,826	25,417	18,524
Total equivalent	(boe)	5,602	6,228	7,060	5,626
Daily Production					
Crude Oil	(bbls/day)	22	21	26	25
NGL	(bbls/day)	5	5	5	3
Natural gas	(mcf/day)	202	248	279	206
Total equivalent	(boe/day)	61	68	78	62

PRICES

		Year ended December 31	
		2005	2004
Crude Oil	($/bbl)	65.61	50.27
NGL	($/bbl)	58.30	46.54
Natural gas	($/mcf)	9.64	7.03
Total equivalent	($/boe)	61.30	45.34

The average natural gas selling price of $9.64 per mcf for the year 2005 represented a $2.61 increase (37.1%) from the average price for the year 2004 of $7.03 per mcf.

Crude oil price for the year averaged $65.61, up $15.34 (30.5%) over the $50.27 average price for the 2004 year.

Natural gas liquids prices averaged $58.30 for the year 2005 an increase of $11.76 (25.3%) from the average price for the 2004 year of $46.54.

Perceived concerns with the supply of crude oil and natural gas, as well as an increased demand for oil on a global bases, have kept prices for these commodities at historically high levels.

REVENUE

	Year ended December 31	
(000's, except as indicated)	2005	2004
Natural gas	517.7	600.4
Crude oil	523.6	433.0
NGL	68.1	78.1
Production revenue	1,109.4	1,111.6
Royalty income	34.1	-
Total production revenue	1,143.5	1,111.6
Interest income	5.5	-
Total revenue	1,149.0	1,111.6
Production revenue ($/boe)	61.30	45.34
Total production revenue ($/boe)	63.18	45.34

Total gross revenues for the year 2005, increased by $37.4, a 3.3% increase over 2004. Production revenue for 2005 declined slightly over 2004 levels. The oil price increases for the 2005 year offset oil volume declines with oil revenues increasing by $90.6 over 2004. Natural gas revenue for 2005 decreased by $82.7 a 13.8% decrease from 2004. Lower production volumes were offset somewhat by increases in gas prices during 2005.

The Company participated in several successful royalty interest wells during 2005 and royalty income aggregated $34.1 during 2005 (2004 – NIL).

Interest income of $5.5 for 2005 (2004 – NIL) resulted from investment of surplus cash in low risk interest bearing deposits.

ROYALTIES

		Year ended December 31	
(000's, except as indicated)		**2005**	**2004**
Crown royalties		157.9	176.9
Gross overriding and freehold royalties		48.2	34.4
Subtotal		206.1	211.3
Alberta Royalty Tax Credit		(26.4)	(21.6)
Net royalties		179.7	189.7
Average royalty rate	($/boe)	9.93	7.74
Average royalty rate	(percent)	16.2	17.1

Royalty rates fluctuate with commodity prices and production volumes, and can also fluctuate period to period based on the weighting in the product mix which are subject to different royalty rates and certain flare credit adjustments.

Net royalties for the 2005 decreased 5.3% to $179.7 versus $189.7 for the 2004 year. The decrease in net royalties paid primarily resulted due to lower volumes but was offset by higher commodity prices reflected in the royalty rates charged. Oil and gas production in December from the three new wells are subject to royalty and affect the product mix and volumes for net royalties paid.

On a boe basis net royalties were $9.93/boe for the 2005 year versus $7.74 per boe for the 2004 year, reflecting the higher commodity prices for 2005, and the fact that the 2004 net royalties also reflect inclusion of a $6.1 ARTC amount which was an adjustment for certain ARTC not claimed in fiscal 2003.

PRODUCTION AND TRANSPORTATION

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Operating expenses	308.4	289.7
Transportation expenses	28.7	32.1
Total operating expenses	337.1	321.8
Net operating expenses ($/boe)	18.62	13.13

Total operating expenses for the 2005 year were $337.1 versus $321.8 for the 2004 year, an increase of $15.3. On a boe basis operating expenses were $18.62/boe for the 2005 year versus $ 13.13/boe for the 2004 year.

Transportation costs were lower due to reduced volumes. Operating costs were higher mainly due to increased third party operating costs.

GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Gross expenses	336.6	295.0
Overhead recovery	(63.5)	(27.0)
Net expenses	273.1	268.0
Net general and administrative expenses ($/boe)	15.09	10.93

Net general and administrative expenses ("G&A") for the 2005 year increased $5.1 to $273.1, versus $268.0 for the 2004 year.

The increase in G&A costs for the 2005 year result mainly from additional audit accruals required, increased accruals for independent engineering costs, quarterly management fees related to the preferred share financing, increased office rents, and increased computer systems costs. Higher G&A costs were offset by increased overhead recoveries during 2005 related to capital drilling programs.

On a boe basis net G&A expenses were $15.09/boe for the 2005 year versus $10.93/boe in the 2004 year. The increase results because of the higher expenses, but mainly due to lower sales volumes.

INTEREST EXPENSE

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Interest expense	10.4	38.4
Total interest ($/boe)	0.57	1.57

Interest on the revolving credit line (at prime plus 1.50% to May 31, 2005 and thereafter at prime plus 1.00%) decreased $28.0 from the 2004 year to $10.4 during the 2005 year. This resulted mainly because the bank debt was NIL from June until mid December 2005 and net proceeds from the preferred share financing were used to fund operations and the capital drilling programs.

During 2005 the revolving bank debt reduced from $420,000 to $240,000 (2004 – from $790,000 to $420,000).

STOCK BASED COMPENSATION

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Stock based compensation costs	8.5	-
Total stock based compensation costs ($/boe)	0.47	-

The Company recorded stock based compensation costs of $8.5 during 2005 related to stock options issued during the year. No options were issued in 2004 and there was no effect on the financial statements.

FINANCIAL COSTS

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Amortization of deferred charges	20.7	-
Dividends on preferred shares	69.5	-
Total financing costs	90.2	-
Total financing costs ($/boe)	4.98	-

Costs related to the preferred share financing in 2005 have been deferred and are being amortized over five years. Amortization of $20.7 was recorded in 2005.

The issued convertible preferred shares have, for accounting purposes, been classified as a long term liability. The related dividends paid during 2005 of $69.5 have been deducted as an expense on the Statement of Loss.

DEPLETION, DEPRECIATION, AND ACCRETION EXPENSE ("DD&A")

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Depletion and depreciation	201.7	183.8
Accretion expense	12.6	9.2
Total DD&A	214.3	193.0
Total DD&A ($/boe)	11.84	7.87

Total DD&A of $214.3 for the 2005 year was $21.3 higher than for the 2004 year. Depletion costs were higher because some $1.6 M of drilling, completion and equipment costs were added to the depletable cost base mainly in the last half of the year.

This plus the effect of lower proved reserves in 2005 more than offset the effect of lower volumes for the year leading to higher depletion costs than for the 2004 period.

On a boe basis total DD&A expenses were $11.84/boe for 2005 versus $7.87/boe for 2004. The increase results mainly because of lower sales volumes.

INCOME TAXES

The Company has recorded a future tax expense of $78.0 in the 2005 year versus $14.7 for the 2004 year. In 2005 as a result of the amalgamation and reverse takeover of Everest the Company will become a public reporting entity and is no longer subject to the lower tax rates enjoyed by a Canadian Controlled Private Corporation.

No current income taxes were recorded in 2005 because available tax pools were adequate to cover any taxable income that arose. Current taxes of $13.8 were recorded in 2004 because taxable income exceeded available loss carry forwards and tax pools available.

CASH FLOW AND EARNINGS

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Cash flow from operations	279.2	279.9
Cash flow per share (diluted)	0.02	0.05
Net income (loss)	(42.3)	72.1
Net income (loss) per share (diluted)	(0.00)	0.01

The net loss for 2005 of $42.3 was materially different from the net income of $72.1 for 2004. This decrease related mainly to dividends on preferred shares and increased future income tax expense. Increased gross income was offset by increased operating, G&A and DD&A expenses. Increased stock based compensation and amortization of deferred charges were offset by reductions in interest expense.

Cash flow from operations for 2005 was basically the same as for 2004. Despite the net loss for 2005 this resulted because the increase in the non cash add backs basically equaled the decrease in net income.

The 2004 diluted cash flow per share and net income (loss) per share have been restated to reflect the share exchange terms of the Amalgamation Agreement.

NETBACKS

The following table sets out the Company's production netbacks for the year ended December 31, 2005, and 2004:

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Oil and gas revenues	61.30	45.34
Royalties, net of ARTC	9.93	7.74
Operating and transportation expenses	18.62	13.13
Netback ($/boe)	32.75	24.47

PROPERTY AND EQUIPMENT EXPENDITURES

	Year ended December 31	
(000's, except as indicated)	**2005**	**2004**
Land	126.8	16.9
Geological and geophysical	40.0	3.4
Conventional drilling and completions	1,191.4	3.2
Production equipment and facilities	484.6	134.3
Property acquisitions	-	4.2
Proceeds from sale of property and equipment	(19.1)	(151.0)
Other	44.0	.7
Cash capital expenditures	1,867.7	11.7

2005 capital expenditures for drilling, completion and production facilities were financed with the net proceeds of the preferred share financing plus bank debt, cash flow and working capital. Land, geophysical and other asset expenditures were financed from bank debt, cash flow and working capital.

During 2004 capital expenditures of a minor nature were financed from cash flow and working capital. Certain compressor equipment costs incurred in March 2004 were financed with a special term revolving credit facility of $120,000. Proceeds from the applicable well were used to pay down this facility and it was fully repaid at December 31, 2004.

In both years, proceeds from sales of property and equipment have been applied against bank debt.

LIQUIDITY AND CAPITAL

At December 31, 2005 the Company had a revolving credit line up to $900,000, bearing interest at prime plus 1.00% per annum. The available credit on the facility reduced by $18,000 per month beginning August 1, 2005. At December 31, 2005, the bank debt utilized was $240,000 (December 31, 2004 – revolving credit line of up to $800,000 and bank debt utilized of $420,000).

On December 31, 2005, pursuant to the Amalgamation Agreement, the shareholders of the Company approved an effective 10 for 1 share split. The common share transactions for 2005 and 2004 have been restated to reflect the conversion terms of the Amalgamation, whereby every common share of the Company was converted into 10.13611 shares of the amalgamated company.

In December 2004, the Company, pursuant to a private placement, issued 91,225 common shares for gross proceeds of $18,000, and issued 182,450 flow through common shares for gross proceeds of $39,600. The Company has incurred qualified expenditures of $39,600 on, or before, December 31, 2005. The proceeds have been used initially to pay down bank debt.

During the first quarter of 2005, the Company pursuant to a private placement issued 689,256 common shares for gross proceeds of $40,800. The proceeds have been applied against bank debt.

In June and July 2005 the Company closed a private placement whereby 130,000 Series 2 Preferred Shares were issued for gross proceeds of $1,300,000 (net proceeds after fees of $1,235,000). These proceeds were used initially to pay down bank debt, and surplus cash was invested in low risk interest bearing deposits. All surplus cash and remaining proceeds from the preferred shares issued have been used to fund the 2005 drilling program. The Company in July 2005, as fee consideration for the agents, issued 13,000 Warrants entitling them to purchase one common share of the Company for each warrant held at an exercise price of $3.50 per share for a period of 18 months.

Pursuant to the Amalgamation Agreement the preferred shares and warrant holders have agreed to amended common share conversion and exercise prices. The Company has re-issued 130,000 Series 1 Preferred Shares in exchange for the Series 2 Preferred Shares and has re-issued 131,769 Warrants in exchange for the original Warrants.

Pursuant to requirements of the Amalgamation Agreement in early December 2005 all options were exercised resulting in the issuance of 573,705 common shares for gross proceeds of $76,680.

The Company's future investing activities, which consist primarily of its 2006 drilling program and other expenditures on oil and gas activities will be funded from cash flow from operations, bank debt, and equity financings.

QUARTERLY FINANCIAL INFORMATION

The following table sets out certain quarterly information of the Company, and has been prepared in accordance with Canadian generally accepted accounting principles.

	2005				2004			
($000's except per share amounts	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenues, gross	360.5	301.9	249.9	236.7	269.9	287.2	320.2	234.3
Net income (loss)	(27.6)	38.2	(5.5)	(47.4)	(26.6)	50.4	35.1	13.2
per share (diluted)	(0.00)	0.00	(0.00)	(0.00)	(0.00)	0.00	0.00	0.00
Cash flow from operations	92.3	100.9	39.8	46.1	32.0	94.7	95.9	57.3
per share (diluted)	0.01	0.01	0.00	0.00	0.01	0.01	0.02	0.01

The diluted net income (loss) per share and cash flow from operations per share for 2005 and 2004 have been restated to reflect the share exchange terms of the Amalgamation Agreement.

Factors that caused variations over the quarters

2005 revenues for the first two quarters were down due to production declines and shipping delays. During the third quarter gas prices increased substantially accounting for higher revenues. During the fourth quarter gas prices again increased substantially and despite lower gas volumes than the third quarter the higher gas prices and increased oil volumes resulted in higher revenue.

Pursuant to an Independent Operations Notice and AFE given to the operator, the Company committed to purchase a compressor and incur the necessary costs to put the well back on production. The operator elected to not participate, and the Company received 100% of the revenue from commencement of production in mid March 2004, until payout of the costs at end November, 2004. From December 2004, the Company received its original 1/3 working interest share of revenues. These revenue gains were partially offset by minor revenue losses related to sale of two gas producing properties effective July 1, 2004.

RELATED PARTY TRANSACTIONS

Included in general and administrative expense is $132,000 (2004 - $144,000) of consulting fees paid to corporations which are controlled by officers and directors of the Company. Consulting fees are paid on a current basis.

Included in royalty expense is $18,389 (2004 - $18,325) of overriding royalties owing to officers and directors pursuant to a standard industry overriding royalty agreement between the Company and the officers and directors. At December 31, 2005, $10,586 (2004 - $8,949) was payable with respect to these royalties.

Included in deferred charges are finance fees of $81,600, related to financial and marketing assistance for the Series 2 Preferred financing, provided by a director of the Company.

Included in accounts receivable is $56,175 receivable from shareholders, directors and officers arising from joint venture operations.

Notes payable of $135,700 relate to advances made by directors of Everest. The Company has agreed to repay these loans, including interest at prime plus 1.5% and 1.75% in four equal installments with maturities from April 17, 2006 to June 30, 2006.

These transactions were in the normal course of operations, and the amounts of consideration established and agreed to by the related parties were commensurate with arms length amounts paid to third parties based on standard commercial terms.

CONTRACTUAL COMMITMENTS

The Company has a commitment for future minimum net office lease rental payments, inclusive of occupancy costs as follows:

Less than one year	$	67,466
One to three years		185,532

SUBSEQUENT EVENTS

The following subsequent events affected the Company's Liquidity and Capital:

On January 31, 2006, the Company granted 410,000 options to directors and officers, and one employee at an exercise price of $0.50 each. The options vested immediately, and have a five year term, which expires January 31, 2011. Of the options granted, 385,000 options have been approved by the TSX Venture Exchange.

On March 10, 2006, the Company entered into a new demand non-revolving loan agreement for $300,000, which bears an interest rate of prime plus 1.00% and is to be fully repaid by May 31, 2006. Pursuant to the new independent reserve evaluation of December 31, 2005, the Company, on April 18, 2006 received a proposal for a new revolving credit facility up to a maximum of $2,000,000 which and would bear interest at prime plus 1.00%. The available credit on the facility would reduce by $65,000 each month beginning August 1, 2006. The proposed new facility was subject to approval by the credit committee of the bank.

On March 27, 2006, the Company announced its intention to complete a non-brokered Private Placement financing via Offering Memorandum of up to $1.5 million through the issuance of up to 1,000,000 common shares at a price of $0.75 per common share and up to 833,334 flow-through common shares at a price of $0.90 per flow through common share. The sales agent will receive a 6% cash fee in respect of gross proceeds raised by the agent and received by the Company. On April 10, 2006 the Company increased the size of the above offering by $500,000, through the issuance of a further 555,555 flow-through common shares at a price of $0.90 per flow-through common share.

The proposed Private Placement has been conditionally approved by the TSX Venture Exchange. Closing of the financing is expected to occur, on, or about April 28, 2006 and is subject to final approval of the TSX Venture Exchange.

On April 27, 2006, the Company closed a portion of the Private Placement financing for gross proceeds of $1,603,500 through the issuance of 956,000 common shares at a price of $0.75 per common share, and 985,000 flow-through common shares at a price of $0.90 per flow-through common share. A director of the Company subscribed for 56,000 flow-through common shares for $50,400. A 6% cash fee of $90,621 was paid to the agent in respect of gross proceeds raised by the agent.

The remaining portion of the Private Placement is expected to close in early May, 2006.

Management's Responsibility for Financial Reporting

The Management of Westbow Energy Inc. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. The financial information contained elsewhere in this Annual Report has been reviewed to ensure consistency with that in the consolidated financial statements.

Management maintains appropriate systems of internal control that provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded from loss or unauthorized use and financial records provide reliable and accurate information for the preparation of financial statements.

Collins Barrow Calgary LLP, an independent firm of chartered accountants, was appointed by the shareholders of Westbow Energy Inc. to audit the consolidated financial statements of the Company and provide an independent professional opinion. Their report is presented with the financial statements.

The Board of Directors, through its Audit Committee, has reviewed the financial statements including notes thereto with Management and Collins Barrow Calgary LLP. The members of the Audit Committee are composed of independent directors who are not employees of the Company. The Company's Board of Directors has approved the information contained in the consolidated financial statements based on the recommendation of the Audit Committee.

(signed) "Daniel P. O'Neill"

Daniel P. O'Neill
President and Chief Executive Officer

(signed) "J.L. Holloway"

J. L. Holloway
Vice President, Finance

April 27, 2006

Collins Barrow

Chartered Accountants & Consultants

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Auditors' Report

To the Shareholders of
Westbow Energy Inc.

We have audited the consolidated balance sheets of Westbow Energy Inc. as at December 31, 2005 and 2004 and the consolidated statements of income (loss) and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material aspects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Collins Barrow Calgary LLP"

CHARTERED ACCOUNTANTS

Calgary, Alberta
April 7, 2006
(except for note 16, which is as of April 27, 2006)

Westbow Energy Inc.
Consolidated Balance Sheets
December 31, 2005 and 2004

	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 244,872	$ -
Accounts receivable	1,068,980	245,287
Prepaid expenses and deposits	56,064	32,377
Income taxes recoverable	11,540	-
	1,381,456	277,664
Deferred charges, net of amortization (note 9[c])	159,272	-
Property and equipment (note 5)	4,318,029	1,438,479
Goodwill	287,000	-
	$ 6,145,757	$ 1,716,143
Liabilities		
Current liabilities		
Bank indebtedness	$ -	$ 7,709
Bank loan (note 6)	240,000	420,000
Accounts payable and accrued liabilities (note 12)	2,136,052	497,099
Income taxes payable	-	13,760
Notes payable (note 7)	135,700	-
	2,511,752	938,568
Asset retirement obligations (note 8)	273,843	190,183
Convertible preferred shares (note 9)	1,300,000	-
Future income taxes (note 10)	137,335	46,000
	4,222,930	1,174,751
Shareholders' Equity		
Share capital (note 11)	1,782,400	361,179
Contributed surplus (note 11[g])	2,470	-
Retained earnings	137,957	180,213
	1,922,827	541,392
	$ 6,145,757	$ 1,716,143

Commitments (note 13)
See accompanying notes to consolidated financial statements.

Approved by the Board,

(signed) "Daniel P. O'Neill", Director

(signed) "J. L. Holloway", Director

Westbow Energy Inc.
Consolidated Statements of Income (Loss) and Retained Earnings
For the Years Ended December 31, 2005 and 2004

	2005	2004
Revenue		
Oil and natural gas sales	$ 1,109,424	$ 1,111,567
Royalties (note 12[b])	(206,153)	(211,288)
	903,271	900,279
Alberta royalty tax credit	26,402	21,585
Royalty income	34,119	-
Other income	5,536	-
	969,328	921,864
Expenses		
Operating	308,403	289,658
Transportation	28,653	32,120
General and administrative (note 12[a])	273,152	268,036
Interest on bank loan	10,360	38,394
Stock-based compensation (note 11[c])	8,476	-
Amortization of deferred charges (note 9[c])	20,665	-
Dividends on preferred shares (note 9[b])	69,516	-
Depletion, depreciation and accretion	214,279	193,018
	933,504	821,226
Income before income taxes	35,824	100,638
Income taxes (note 10)		
Current	80	13,760
Future	78,000	14,748
	78,080	28,508
Net income (loss)	(42,256)	72,130
Retained earnings, beginning of year	180,213	108,083
Retained earnings, end of year	$ 137,957	$ 180,213
Net income (loss) per share (note 11[h])		
Basic	$ (0.00)	$ 0.01
Diluted	$ (0.00)	$ 0.01

See accompanying notes to consolidated financial statements.

Westbow Energy Inc.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004

	2005	2004
Cash provided by (used for)		
Operating activities		
Net income (loss)	$ (42,256)	$ 72,130
Add items not affecting cash:		
Stock-based compensation	8,476	-
Amortization of deferred charges	20,665	-
Depletion, depreciation and accretion	214,279	193,018
Future income taxes	78,000	14,748
	279,164	279,896
Asset retirement obligations settled	(1,043)	-
Changes in non-cash working capital (note 15[a])	(237,596)	51,099
	40,525	330,995
Financing activities		
Issuance of common shares, net of issue costs	117,480	57,600
Proceeds from bank loan, net of repayments	(180,000)	(370,000)
Issuance of convertible preferred shares	1,300,000	-
Issuance costs of preferred shares	(95,867)	-
Changes in non-cash working capital (note 15[a])	3,537	-
	1,145,150	(312,400)
Investing activities		
Property and equipment expenditures	(1,886,804)	(162,700)
Proceeds from sale of property and equipment	19,061	151,021
Transaction costs on reverse take-over and amalgamation (note 2)	(191,995)	-
Changes in non-cash working capital (note 15[a])	814,546	-
	(1,245,192)	(11,679)
Cash inflow (outflow)	(59,517)	6,916
Bank indebtedness, beginning of year	(7,709)	(14,625)
Cash acquired from amalgamation of Everest (notes 2 and 4)	312,098	-
Cash and cash equivalents (bank indebtedness), end of year	$ 244,872	$ (7,709)
Cash and cash equivalents (bank indebtedness) is comprised of:		
Bank indebtedness	$ (65,128)	$ (7,709)
Funds held in trust (note 4)	310,000	-
	$ 244,872	$ (7,709)
Supplemental cash flow information:		
Interest paid	$ 10,360	$ 39,829
Income taxes paid	$ 25,380	$ -

See accompanying notes to consolidated financial statements.

1. Nature of operations

Westbow Energy Inc. (“Westbow” or the “Company”) was incorporated under the Alberta Business Corporations Act on October 5, 1999 and is engaged in the exploration for and development of petroleum and natural gas properties in western Canada. On December 31, 2005 the Company amalgamated with Everest Energy Corporation (“Everest”), a public company listed on the TSX Venture Exchange. This amalgamation has been recorded as a reverse take-over transaction as described in note 2. The amalgamated company continued under the name Westbow Energy Inc (“Amalco”).

These consolidated financial statements include the accounts of the Company and Everest, as at December 31, 2005.

Pursuant to the Amalgamation Agreement, all the issued and outstanding Everest and Westbow shares were converted into Amalco shares based on specified conversion rates. In effect, the outstanding Everest shares were consolidated on a 10 to 1 basis as every 9.7372 Everest share was converted into one share of Amalco. Conversely, all the outstanding Westbow shares were split on an effective 10 to 1 basis as one share was converted into 10.13611 share of Amalco. After giving effect to the transaction, former Westbow shareholders owned 7,000,000 shares and former Everest shareholders owned 3,000,000 shares of the amalgamated entity.

2. Business Combination

On December 31, 2005, the Company and Everest amalgamated under the terms of the Amalgamation Agreement. The share allocation was determined by arm’s length negotiation based on each company’s respective net asset values.

The transaction has been accounted for as an acquisition of Everest by the Company using the purchase method for total consideration of $1,464,560 consisting of 3,000,000 common shares and transaction costs of $237,560.

The purchase price has been recorded at the fair value of the assets and liabilities acquired, as follows:

Working capital deficiency, including cash of $312,098	$ (9,388)
Property and equipment	1,202,305
Asset retirement obligations	(15,357)
Goodwill	287,000
	$ 1,464,560

The results of operations of Everest will be included in the accounts of the Company from January 1, 2006.

3. Significant accounting policies

(a) Use of estimates

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of the consolidated financial statements for a period involves the use of estimates and approximations, which have been made using careful judgment. The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below.

(b) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment, the accretion of the asset retirement obligations, and the ceiling test calculation are based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions.

The amounts disclosed relating to the fair value of stock options issued are based on estimates of future volatility of the Company's stock price, the expected lives of the options, expected dividends to be paid by the Company, and other relevant assumptions.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of deposits with banks, and funds held in trust.

(d) Property and equipment

(i) Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas properties whereby all costs related to the exploration for and the development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a single Canadian cost centre and charged to income as set out below. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, and lease and well equipment.

Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would alter the rate of depletion and amortization by more than 20%, in which case a gain or loss is recorded.

(ii) Depletion

Depletion of petroleum and natural properties and production equipment capitalized is provided for using the unit-of-production method based upon estimated proved petroleum and natural gas reserves as determined by independent engineers. For purposes of this calculation, petroleum and natural gas reserves before royalties are converted to a common unit of measure on the basis of their relative energy content where one barrel of oil or liquids equals six thousand cubic feet of natural gas.

In determining its depletion base, the Company includes estimated future capital costs to be incurred in developing proved reserves and excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the unproved properties or impairment has occurred. Unproved properties are evaluated periodically by management to ascertain if impairment has occurred.

(iii) Ceiling test

Under the full cost method of accounting, a limit is placed on the carrying amount of petroleum and natural gas properties. A ceiling test is performed to recognize and measure impairment, if any.

Impairment is recognized if the carrying amount of petroleum and natural gas properties, less the cost of unproved properties not subject to depletion (the "adjusted carrying amount") exceeds the estimated undiscounted future cash flows from the Company's proved reserves. The future cash flows are based on forecast prices and costs, as provided by an independent third party. If recognized, the magnitude of the impairment is measured by comparing the adjusted carrying amount to the estimated, discounted future cash flows of the Company's proved and probable reserves, based on future product prices and costs, and discounted at an appropriate risk-free interest rate. Any recognized impairment is recognized as additional depletion expense.

(iv) Depreciation

Furniture and office equipment are carried at cost and depreciated on a straight-line basis over periods of three to five years.

(e) Asset retirement obligation

The estimated fair value of each asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit-adjusted risk-free interest rate. The discounted obligation is initially capitalized as part of the carrying amount of the related petroleum and natural gas properties and a corresponding liability is recognized. The increase in petroleum and natural gas properties is depleted and amortized on the same basis as the remainder of the petroleum and natural gas properties. The liability is accreted against income until it is settled or the property is sold and is recorded as accretion expense. Actual restoration expenditures are charged to the accumulated obligation as incurred. Any settlements are charged to income in the period of settlement.

The obligations are reviewed regularly by management based upon current regulations, costs, technologies and industry standards.

(f) Stock-based compensation

Compensation costs attributable to all stock options granted are measured at fair value at the date of the grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather, the Company accounts for cancellations as they occur.

(g) Joint venture accounting

Substantially all of the Company's exploration, development and production activities are conducted jointly with others, and accordingly these consolidated financial statements reflect only the Company's proportionate interest in these activities.

(h) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at the carrying values. Income tax assets are also recognized for the benefits from tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

(i) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including operating, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

(j) Flow-through shares

The Company records the future income taxes associated with the renunciation of expenditures for income taxes purposes on the date the Company files the renouncement forms with the Canada Revenue Agency.

(k) Per share information

Net income per share is calculated based on the weighted average number of common shares outstanding during the year. The diluted weighted average number of shares is adjusted for the dilutive effect that would occur if options and warrants to purchase common stock were exercised and other convertible instruments were converted. Under the treasury stock method, only "in the money" options, warrants, and convertible preferred shares are included in the weighted average diluted number of shares. It is also assumed that any proceeds obtained on the exercise of warrants and options and on conversion of preferred shares, plus the unamortized portion of the stock-based compensation would be used to purchase common shares at the average price during the period. The weighted average number of shares is then reduced by the number of shares acquired.

(l) Goodwill

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is stated at cost, less any impairment, and is not amortized. Goodwill is assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The test for impairment is conducted by the comparison of the book value to the fair value of the entity. If the fair value is less than the book value, impairment is deemed to have occurred. The extent of the impairment is measured by allocation of the fair value of the entity to the identifiable assets and liabilities at their fair value. Any remainder of this allocation is the implied value of goodwill. Any excess of the book value of goodwill over this implied value is the impairment amount. Impairment is charged to earnings in the period in which it occurs.

4. Funds held in trust

Included in working capital acquired from Everest at December 31, 2005 (note 2) was $310,000 held in trust. Pursuant to Everest's agreement with its convertible debenture holders, these funds represented the proceeds from the sale of certain property and equipment, which were to be held in trust pending shareholder approval of the proposed amalgamation. Shareholder approval was given on December 7, 2005 and the amalgamation took place on December 31, 2005. The funds were released to the Company on January 9, 2006.

5. Property and equipment

	2005		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 4,864,557	$ 593,185	$ 4,271,372
Furniture and office equipment	56,597	9,940	46,657
	$ 4,921,154	$ 603,125	$ 4,318,029

	2004		
	Cost	Accumulated Depletion and Depreciation	Net Book Value
Petroleum and natural gas properties	$ 1,829,676	$ 395,542	$ 1,434,134
Furniture and office equipment	10,224	5,879	4,345
	$ 1,839,900	$ 401,421	$ 1,438,479

Unproved property costs of $184,110 have been excluded from the depletion calculation (2004 - $18,391).

No general and administrative expenses have been capitalized in 2005 or 2004.

The Company performed a ceiling test at December 31, 2005 to assess the recoverable value of its oil and gas properties. Benchmark Edmonton light sweet crude oil prices and AECO field spot prices as established by the Company's independent reserve evaluators were used for oil and natural gas prices respectively. The future prices used in the ceiling test as at December 31, 2005, are as follows:

Year	Oil (CDN $/bbl)	Natural Gas (CDN $/mcf)
2006	$ 67.63	$ 10.25
2007	67.20	9.00
2008	61.70	7.75
2009	56.80	7.00
2010	54.40	6.60
2011	54.40	6.70
2012	55.00	6.80
2013	55.60	6.90

The ceiling test performed at December 31, 2005, resulted in no impairment provision.

6. Bank loan

The Company has the following credit facilities available with a Canadian chartered bank:

	2005	2004
Revolving demand loan (note 6[i])	$ -	$ 420,000
Revolving demand loan (note 6[(ii)])	240,000	-
	$ 240,000	$ 420,000

(i) On April 30, 2004, the Company entered into a new financing agreement. Under the new revolving credit facility, the Company has available a maximum of $800,000 reducing by $10,000 each month beginning May 1, 2004, increasing to $20,000 each month beginning July 1, 2004. The loan bears interest at prime plus 1.5% per annum and is secured by a fixed charge on certain producing properties and a fixed and floating debenture of $ 1,500,000.

In addition, a revolving credit facility of $120,000 bearing interest at prime plus 1.5% per annum was granted to purchase a compressor at Wapiti. The revolving credit facility was secured by a fixed charge on the compressor and 100% of the net operating income on the Wapiti well until the payout account was extinguished. Commencing May 1, 2004, the facility reduced by $10,000 per month. At December 31, 2004, this credit facility was fully repaid.

(ii) In May, 2005, the Company entered into a new financing agreement. Under the new revolving credit facility, the Company has available a maximum of $900,000, bearing interest at prime plus 1.00% per annum, and reducing by $18,000 each month beginning August 1, 2005. The revolving credit facility includes similar security terms as described in note 6(i).

The Company is required to meet certain financial and engineering reporting requirements under the loan agreement and is subject to annual review. The Company is also required to ensure the value of its reserves and the estimated net operating revenue from its petroleum and natural gas properties exceed specified limits.

7. Notes payable

Notes payable at December 31, 2005 of $135,700 relate to advances made by directors of Everest. The Company has agreed to repay these notes as follows:

Note payable with interest at prime plus 1.5% per annum, repaid in four equal instalments, maturing April 17, 2006	$ 37,000
Note payable with interest at prime plus 1.75% per annum maturing June 30, 2006	98,700
	$135,700

8. Asset retirement obligations

The Company's total future asset retirement obligations result from net ownership interests in petroleum and natural gas assets, the estimated costs to reclaim and abandon said wells and facilities, and the estimated timing of such abandonments. The Company estimates that the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $386,370 at December 31, 2005 (2004 - $267,677), which will be incurred over the next 20 years. The Company used a credit adjusted risk free rate of 5.85% (2004 – 5.85%) and an inflation rate of 2.1% (2004 – 2.1%) to calculate the present value of the asset retirement obligation.

A reconciliation of the Company's asset retirement obligations is provided below:

	2005	2004
Balance, beginning of year	$ 190,183	$ 190,527
Acquired on amalgamation with Everest (note 2)	15,357	-
Liabilities incurred	59,903	33,300
Revisions in estimated cash flows	(3,133)	(42,857)
Accretion expense	12,576	9,213
Liabilities settled	(1,043)	-
Balance, end of year	$ 273,843	$ 190,183

9. Convertible preferred shares

(a) Issuance

In June 2005, the Company closed a private placement whereby 100,000 Series 2 preferred shares ("Preferred Shares") were issued at $10 per share for gross proceeds of $1,000,000. On July 19, 2005, the Company closed an additional offering of 30,000 Preferred Shares for gross proceeds of $300,000. Total cash fees of $ 65,000 were paid resulting in net proceeds of $1,235,000.

At the option of the holder, the Preferred Shares are convertible into common shares of the Company at any time after issuance for a period of five years and at specific conversion rates during each anniversary year from the date of issuance. The conversion privilege lapses after the end of the fifth year. The Company has the right during the same five year period to redeem the Preferred Shares, following notice, at a premium price of $12 per share, thereafter the redemption occurs at par. After the five year period, the holder has a retraction right to have the Company redeem the shares at par.

The Preferred Shares have a par value of $10.00 per share and carry a cumulative dividend of $0.90 per annum accruing from date of issuance, and payable quarterly on the last day of March, June, September, and December.

A management fee equal to 0.25% of the value of the outstanding Preferred Shares will be payable quarterly at the same time as the dividends are due, but only for the first five years from the date of issuance of the Preferred Shares.

Pursuant to the Amalgamation Agreement (note 2) the holders of Preferred Shares agreed to an amendment to the common share conversion prices. The Company has re-issued 130,000 Series 1 Preferred Shares in exchange for the Preferred Shares. All remaining terms and conditions of the Preferred Shares remain the same.

The Company has set aside and reserved for issuance, a maximum of 2,600,000 common shares pursuant to conversion of the Series 1 Preferred Shares.

(b) Financial statement classification

The liability component and the equity component of convertible instruments are segregated on initial recognition in accordance with Section 3860 - Financial Instruments. The Company has evaluated the fair value of any equity portion related to the conversion rights of the Preferred Shares using the Black Scholes method and determined it to be not material. Accordingly, the Preferred Shares have been classified as a long-term liability on the Balance Sheet. Related dividends paid of $69,516 have been deducted as an expense on the Statement of Income (Loss).

(c) Deferred charges

Deferred charges of $179,937 include cash costs of $95,867, the fair value of Agent's Warrants of $2,470 (Note 11[e]) and non-cash finance fees of $81,600. The finance fees related to financial and marketing assistance relating to the Preferred Shares provided by a director of Everest. The deferred charges are being amortized on a straight-line basis over five years. Amortization of $20,665 (2004 - $Nil) was recorded in 2005 including $745 relating to the Agent's Warrants.

10. Income taxes

(a) Current income tax expense differs from that which would be expected from applying the effective Canadian federal and provincial income tax rates of 37.62% (2004 - 16.12%) to the income before income taxes, as follows:

	2005	2004
Expected income tax expense	$ 13,477	$ 16,223
Increase (decrease) resulting from:		
Non-deductible crown payments, net of Alberta royalty tax credit	4,264	22,863
Resource allowance	(23,904)	(12,889)
Effect of change in rates	54,092	1,912
Stock-based compensation	3,189	-
Dividends on preferred shares	26,152	-
Other	730	399
	$ 78,000	$ 28,508

(b) The significant components of the future income tax liability are as follows:

	2005	2004
Carrying value of property and equipment in excess of tax pools	$ 148,500	$ 50,700
Financing fees	4,100	-
Attributed Canadian Royalty Income carryforward	(15,500)	(3,900)
Other	235	(800)
	$ 137,335	$ 46,000

11. Share capital

(a) Authorized
Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series at terms as set by the directors at the time of issue

(b) Issued

	2005		2004	
	Number	**Stated Value**	**Number**	**Stated Value**
Common shares				
Balance, beginning of year	5,737,039	$ 361,179	5,643,364	$ 303,579
For cash pursuant to a private placement (note 11[d])	-	-	273,675	57,600
For cash pursuant to a private placement	689,256	40,800	-	-
Finance fee (note 9[c])	-	81,600	-	-
Tax benefits renounced to flow through share holders (note 11[d])	-	(13,335)	-	-
Options exercised for cash (note 11[c])	573,705	76,680	-	-
Stock-based compensation (note 11[g])	-	8,476	-	-
Shares issued on amalgamation with Everest (note 2)	3,000,000	1,227,000	-	-
Balance, end of year	10,000,000	$ 1,782,400	5,737,039	$ 361,179

The Company, under terms of a Common Share Purchase Agreement, dated March 7, 2005, has received cash consideration of $ 40,800 and issued 689,256 common shares of the Company.

On December 31, 2005, pursuant to the Amalgamation Agreement (notes 1 and 2), the shareholders of the Company approved an effective 10-for1 share split. The share transactions for 2005 and 2004 as well as the basic and diluted weighted average shares have been restated to reflect the conversion terms of the Amalgamation whereby every share of the Company was converted into 10.13611 shares of Amalco.

(c) Stock option plan

The Company has one stock option plan under which directors, officers and consultants of the Company are eligible to receive stock options. The aggregate number of shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company. The maximum number of common shares granted to any one optionee shall not exceed 5% of outstanding common shares of the Company. Options granted under the plan will have an exercise period not exceeding five years and vest at terms to be determined by the directors at the time of grant.

A summary of the status of the Company's stock option plan as of December 31, 2005 and 2004 is as follows:

	2005		2004	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of year	243,266	$ 0.07	243,266	$ 0.07
Granted	330,439	0.13	-	-
Exercised	(573,705)	(0.16)	-	-
Outstanding and exercisable, end of year	-	-	243,266	$ 0.07

The fair value of options granted during the year, as estimated on the date of the grant, was estimated to be $8,476 using the Black-Scholes option pricing model with the following assumptions: expected option life of five years, risk-free interest rate of 3.70%, volatility of 0.0%, and a zero dividend yield.

(d) Flow-through shares

Pursuant to a Units Offering and Subscription Agreement, the Company raised share capital of $57,600 in late December 2004. Pursuant to the Subscription Agreements, the Company issued 91,225 common shares, at a price of $0.20 per common share for proceeds of $18,000, as well as 182,450 common shares issued on a flow-through basis, at a price of $0.22 per flow-through share for proceeds of $39,600. The Company has renounced $39,600 to shareholders as at December 31, 2004. The expenditures of $ 39,600 were incurred in 2005, with the resulting tax effect of $13,335 being recorded as a reduction in share capital in 2005.

(e) Agent's Warrants

On July 19, 2005, the Company issued Agent's Warrants ("Warrants")" exchangeable for additional consideration of $3.50 per Warrant into one common share exercisable until January 19, 2007.

The fair value of the Warrants was estimated to be $ 2,470 using the Black Scholes option pricing model, with the following assumptions: Expected option life of 1.5 years; risk free interest rate of 3.70%; volatility of 0.0%; and a zero dividend yield.

The fair value amount was recorded as a deferred charge to be written off over 18 months with a corresponding increase in contributed surplus. Amortization of $ 745 was recorded in 2005 (2004 – $NIL).

Pursuant to the Amalgamation Agreement, the Warrant holders agreed to an amendment of the exercise price of the Warrants. The Company has re-issued 131,769 Warrants, and has set aside and reserved for issuance, 131,769 common shares pursuant to exercise of the Warrants.

A summary of the Company's Warrants as at December 31, 2005, and the changes during the year ended is as follows:

	Number	Exercise Price
Outstanding, December 31, 2004	-	$ -
Warrants issued	13,000	3.50
Warrant split on amalgamation	118,769	0.17
Outstanding, December 31, 2005	131,769	$ 0.50

(g) Contributed surplus

The following table reconciles the Company's contributed surplus:

	2005	2004
Balance, December 31, 2004	$ -	$ -
Stock-based compensation expense (note 11[c])	8,476	-
Fair value of warrants (note 11[e])	2,470	-
Exercise of stock options	(8,476)	-
Balance, December 31, 2005	$ 2,470	$ -

(h) Per share amounts

Pursuant to the Amalgamation Agreement (note 2), the weighted average number of basic shares outstanding for the year ending December 31, 2005 was 10,000,000 (2004 – 5,737,039).

In computing diluted net income per share amounts, 243,266 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2004 for the dilutive effect of stock options, warrants, and convertible preferred shares. Because the Company was in a loss position in 2005, the effect of stock options, warrants, and convertible preferred shares would be anti-dilutive.

12. Related party transactions

(a) Included in general and administrative expense is $132,000 (2004 - $144,000) paid to companies owned by shareholders for consulting services.

An additional $10,980 (2004 – $NIL) was paid as consulting fees for work related to the Amalgamation. These fees, on amalgamation, formed part of the purchase consideration allocated to the Everest net assets and liabilities.

(b) Included in royalty expense is $18,389 (2004 - $18,325) of overriding royalties owing to certain officers, directors, and significant shareholders of the Company. The overriding royalty was approved by the board of directors with an effective date of May 1, 2001 and from that date forward a 3% royalty will be paid on all present and future acquired properties. At December 31, 2005, $10,586 (2004 - $8,949) was payable with respect to these royalties.

(c) Included in accounts receivable at December 31, 2005, is $56,175 receivable from shareholders, directors and officers arising from joint venture operations.

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties based on standard commercial terms.

13. Commitments

The Company is committed under a lease on its office premises and other operating leases for future net minimum rental payments as follows:

2006	$ 67,466
2007	67,466
2008	67,466
2009	50,600
	$ 252,998

14. Financial instruments

(a) Fair values

The fair values of the Company's accounts receivable, deposits, and accounts payable and accrued liabilities approximate their carrying values due to the relatively short-term nature of these financial instruments.

The fair values of the bank loan, notes payable, and convertible preferred shares approximate their carrying values as they bear interest at market rates for similar instruments.

(b) Credit risk

Virtually all of the Company's accounts receivables are with customers in the petroleum and natural gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers, and therefore the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of accounts receivable to date. The Company's maximum credit risk exposure is limited to the fair value of its accounts receivable.

(c) Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage its exposure to these risks when it deems necessary. The Company did not enter into any derivative financial instruments designated as hedges during 2005 or 2004 and has no outstanding derivative financial instruments designated as hedges as at December 31, 2005 and 2004.

15. Supplemental cash flow information

(a) Changes in non-cash working capital

	2005	2004
Accounts receivable	$ (776,274)	$ (32,965)
Prepaid expenses and deposits	(17,798)	(5,025)
Income taxes recoverable	(11,540)	-
Accounts payable and accrued liabilities	1,264,159	75,329
Notes payable	135,700	-
Income taxes payable	(13,760)	13,760
	$ 580,487	$ 51,099
Change in non-cash working capital relating to:		
Operating activities	$ (237,596)	$ 51,099
Financing activities	3,537	-
Investing activities	814,546	-
	$ 580,487	$ 51,099

(b) The following non-cash transactions have been excluded from the consolidated statements of cash flows:

	2005	2004
Finance fee (note 9[c])	$ 81,600	$ -
Transaction fees paid by Everest (note 2)	$ 45,565	$ -

16. Subsequent events

(a) On March 10, 2006, the Company has entered into a new temporary loan agreement. This demand non-revolving loan of $ 300,000 bears an interest rate of prime plus 1.00% per annum and is to be fully repaid by May 31, 2006. Interest only is to be paid until May 31, 2006, and the loan is secured by a promissory note for $ 300,000 and the same existing securities as for the revolving credit facility (See note 6).

(b) On January 31, 2006, the Company granted 410,000 stock options to directors and officers and one employee at an exercise price of $0.50 each. The options vest immediately and have a five year term which expires January 31, 2011. Of the options granted, 385,000 of the options have been approved by the TSX Venture Exchange.

(c) On March 27, 2006 the Company announced that it intends to complete a Private Placement financing via Offering Memorandum ("Private Placement") of up to $ 1.5 Million through the issuance of up to 1,000,000 common shares at a price of $0.75 per common share, and up to 833,334 flow-through common shares at a price of $0.90 per flow through common share. The Company has retained an agent who will receive a 6% cash fee in respect of gross proceeds raised.

The proposed Private Placement has been conditionally approved by the TSX Venture Exchange. Closing of the financing is expected to occur, on, or about April 28, 2006, and is subject to final approval of the TSX Venture Exchange.

On April 10, 2006, the Company announced that it was increasing the size of its offering under the Private Placement by $500,000, through the issuance of an additional 555,555 flow-through common shares at a price of $0.90 per flow through common share.

On April 27, 2006 the Company closed a portion of the Private Placement financing for gross proceeds of $1,603,500 through the issuance of 956,000 common shares at a price of $0.75 per common share, and 985,000 flow-through common shares at a price of $0.90 per flow through common share. A director of the Company subscribed for 56,000 flow-through common shares for $50,400. The Company retained an agent who received a 6% cash fee of $90,621 in respect of gross proceeds raised.

The remainder of the Private Placement is expected to close in May 2006.

(d) On April 18, 2006, the Company received a proposal for a new revolving credit facility with maximum availability of $2,000,000 interest only to July 31, 2006, reducing by $65,000 each month beginning August 1, 2006. The facility would bear interest of prime plus 1.00%. The loan would be secured by a fixed charge over certain producing properties and a fixed and floating debenture of $3,000,000. The new facility is subject to approval by the bank.

Westbow Energy Inc.

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Dated May 26, 2006

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